



OFFICE OF THE GOVERNOR
AND
THE GOVERNOR'S CABINET SECRETARIES

REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2019

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Office of the Governor and the Governor's Cabinet Secretaries for the period July 1, 2017, through June 30, 2019, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations that is required to be reported.

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AUDIT FINDING AND RECOMMENDATION

Improve Budget Transparency Regarding Cabinet Secretary Employees

Type: Compliance

Repeat: Yes, first issued for the audit period of July 1, 2015, through June 30, 2017

The offices of the Cabinet Secretaries have employees working on their behalf who are funded with appropriations from other agencies and are not properly reported to the Department of Human Resource Management (Human Resource Management). Section 2.2-607 of the Code of Virginia requires agencies that transfer employees without transferring the corresponding appropriations to report this information to Human Resource Management who compiles it for quarterly reporting to the General Assembly. Cabinet Secretaries and their respective agencies did not properly report two out of seven (29%) of employees that function as Cabinet Secretary employees but are supported by funding from other state agencies.

To facilitate the compilation of the transfer information in the report, Human Resource Management currently requests information directly from agencies regarding the employees they have “loaned.” Most of the employees that meet this reporting criteria are performing tasks for the Cabinet Secretaries, but the request for information on “loaned” employees is directed to agency human resources representatives. While it is unclear why certain agencies did not report applicable employees to Human Resource Management, most of the agencies in question are large entities with many employees, increasing the risk that a transferred employee might be overlooked when submitting the information.

By not reporting this information appropriately, the total cost of operations for the impacted Cabinet Secretary offices is not completely transparent. Budget transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner, which is clear, visible, and understandable to an informed citizen with an interest in the information. Budget transparency is critical, as the Appropriation Act is the Commonwealth’s primary tool for setting priorities and allocating resources.

To increase transparency of the costs of operations, Cabinet Secretaries should work to confirm that employees supported by funds from other agencies are reported properly to Human Resource Management. The Office of the Governor should ensure that all Cabinet Secretaries are reporting sufficient information to the affected agencies to facilitate proper reporting of employees.

OFFICE OF THE GOVERNOR

The Governor of the Commonwealth of Virginia has responsibility for managing the executive branch of the government, serving as Chief of State, and acting as the Commander-in-Chief of the Virginia National Guard. The Division of Selected Agency Support Services (Support Services) in the Office of the Secretary of Administration (Administration) provides administrative support to the Governor's Office.

The Office of the Governor (Office) receives most of its funding through General Fund appropriations. The schedule below summarizes budget and actual activity for the last three years.

Budget Analysis for Fiscal Years 2017-2019

Table 1

	2017	2018	2019
Original budget	\$5,297,846	\$5,303,690	\$5,626,050
Final budget	5,716,101	6,436,259	6,724,012
Actual expenses	5,137,357	5,936,802	5,976,603

Source: Commonwealth's accounting and financial reporting system

The following schedule includes the detail adjustments to the Office's appropriations as well as a detailed breakdown of expenses. The majority of the expenses of the Office are payroll and fringe benefit expenses.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 2

	2018	2019
Original appropriations	\$5,303,690	\$5,626,050
Adjustments:		
Discretionary re-appropriation of prior year unexpended balances	578,742	468,456
Federal funds to support the workforce development office	-	500,000
Workforce Transition Act payments to former officials	335,362	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	187,465	129,506
Increased appropriation for the Virginia Asian Advisory Board	31,000	-
Total adjusted appropriations	<u>6,436,259</u>	<u>6,724,012</u>
Expenses:		
Personal services	4,356,799	4,746,859
Contractual services	686,579	534,943
Continuous charges	611,506	499,310
Supplies and materials	264,560	181,511
Equipment	17,358	13,919
Transfer payments	-	61
Total expenses	<u>5,936,802</u>	<u>5,976,603</u>
Unexpended balance	<u>\$ 499,457</u>	<u>\$ 747,409</u>

Source: Commonwealth's accounting and financial reporting system

The Office receives its funding and records transactions under four separate programs, the largest of which is Administrative and Support Services. The Administrative and Support Services Program includes most of the operations of the Office as shown in the following table. Funding for the other programs is discussed in more detail below.

Expenses by Program for Fiscal Years 2018 and 2019

Table 3

	2018	2019
Administrative and Support Services	\$4,786,664	\$4,849,494
Historic and Commemorative Attraction	816,482	779,733
Governmental Affairs Services	333,656	347,376
Total	\$5,936,802	\$5,976,603

Source: Commonwealth's accounting and financial reporting system

Historic and Commemorative Attraction Management

This program covers the costs of operating the Executive Mansion. The majority of expenses under this program are personnel costs for staff to manage the Executive Mansion

Governmental Affairs Services

Under this program, Office staff track federal legislation and pronouncements on behalf of the Commonwealth. This keeps the Commonwealth and its localities informed of any actions that may impact either entity. This program receives both General Fund appropriations and some Commonwealth Transportation funds. The majority of expenses in this program are personnel costs.

Disaster Planning and Operation

In addition to the programs listed above, the Office also receives a "sum sufficient" General Fund appropriation under the Disaster Planning and Operation Program. In any given year, various natural disasters can strike Virginia, resulting in the Governor declaring numerous localities as disaster areas. To address damage and recovery from the disasters, the Department of Emergency Management (Emergency Management) requests General Fund appropriations from the Disaster Planning and Operation program. The Appropriation Act originally includes these funds in its Central Appropriations section, which the Governor authorizes for transfer to Emergency Management. The Department of Planning and Budget transferred \$4.9 million in 2018 and \$40.2 million in 2019 in General Fund sum sufficient appropriations to Emergency Management in response to hurricanes, winter storms, and other natural disasters that occurred in previous fiscal years. The significant increase in fiscal year 2019 was primarily due to a transfer of \$31.2 million in support of Hurricane Florence that impacted the Commonwealth in the Fall of 2018.

FINANCIAL INFORMATION BY CABINET SECRETARY

Introduction

The audit of the Governor’s Cabinet Secretaries covers the agencies listed below. The Secretary of Administration’s Division of Selected Agency Support Services provides administrative support for the Cabinet Secretaries’ operations.

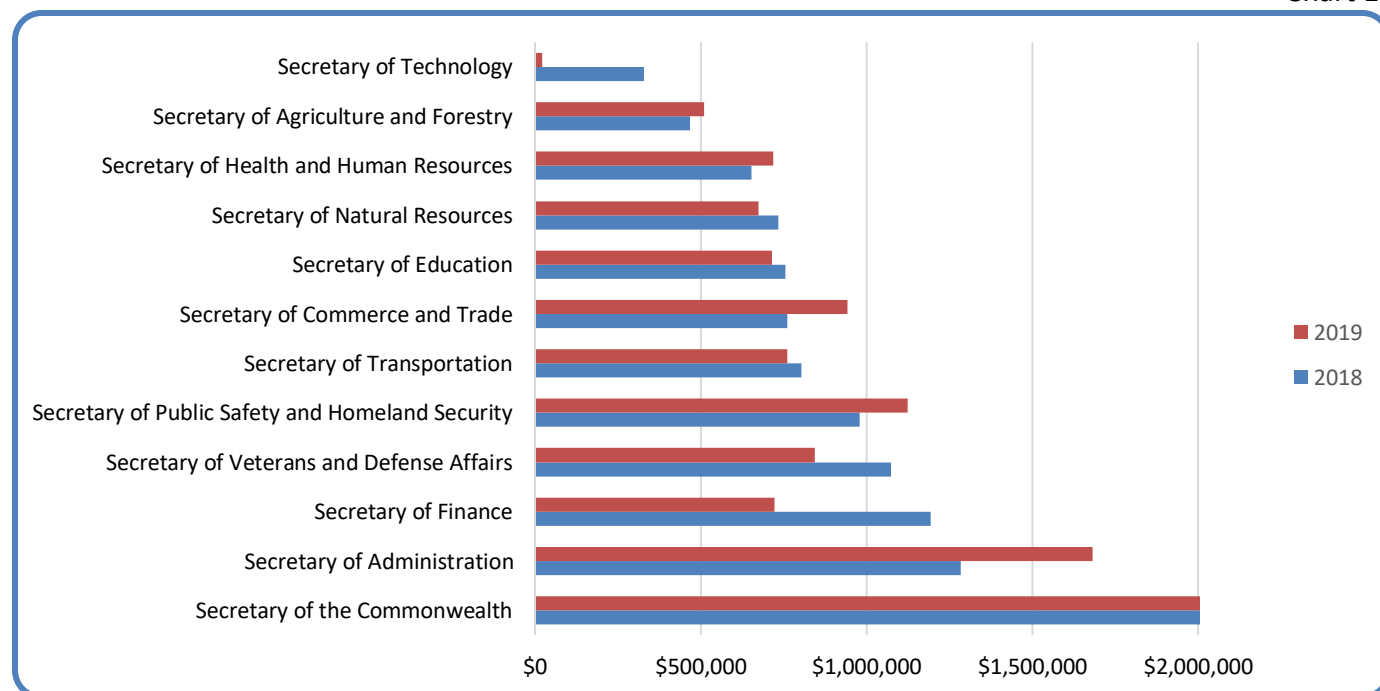
Secretary of Administration	Secretary of Health and Human Resources
Secretary of Agriculture and Forestry	Secretary of Natural Resources
Secretary of Commerce and Trade	Secretary of Public Safety and Homeland Security
Secretary of the Commonwealth	Secretary of Technology
Secretary of Education	Secretary of Transportation
Secretary of Finance	Secretary of Veterans and Defense Affairs

While most Cabinet Secretaries receive the majority of their funding through appropriations from the General Fund of the Commonwealth, some Secretaries also receive various special revenue funds, which we discuss in further detail throughout this report.

The following table summarizes the administrative costs of operations for each Secretary for fiscal year 2018 and fiscal year 2019. The Secretary of Commerce and Trade and the Secretary of Veterans and Defense Affairs provide significant grant payments, which are not reflected in the data presented below, but are discussed in greater detail in the sections of the report devoted to the respective Secretaries.

Expense Summary for Fiscal Years 2018 and 2019

Chart 1



Source: Commonwealth’s accounting and financial reporting system

This report has a section for each Secretary that summarizes the purpose and funding of each of the Secretaries listed in the table above. The format of the information will vary based on the Secretaries' funding sources and their responsibilities.

Secretary of Administration

The Secretary assists the Governor with the management and direction of the administration of state government. Within the Office of the Secretary of Administration is the Division of Selected Agency Support Services (Division). The Division provides financial services and administrative support to the following agencies:

Office of the Governor	Citizens Advisory Council
Office of the Lieutenant Governor	Interstate Organization Contributions
Governor's Cabinet Secretaries	Virginia-Israel Advisory Board

The Secretary receives General Fund appropriations to fund office operations. The increased original appropriation for fiscal year 2019 supports the addition of two positions within the Secretary's office related to oversight of the Commonwealth's statewide information technology operations. This change reflects the reorganization of the Secretariat of Technology within the Secretary's office, which occurred on July 1, 2018. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 4

	2018	2019
Original appropriations	\$1,281,706	\$1,685,650
Adjustments:		
Legislative appropriation to develop a statewide data dictionary and a cloud-based data catalog	-	752,541
Discretionary re-appropriation of prior year unexpended General Fund balances	315,873	376,258
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	39,877	18,401
Workforce Transition Act payments to former officials	23,092	-
Total adjusted appropriations	1,660,548	2,832,850
Expenses:		
Personal services	1,106,625	1,491,685
Continuous charges	88,694	117,682
Supplies and materials	46,562	32,867
Contractual services	37,751	34,723
Equipment	4,633	5,530
Transfer payments	25	404
Total expenses	1,284,290	1,682,891
Unexpended balance	\$ 376,258	\$1,149,959

Source: Commonwealth's accounting and financial reporting system

As mentioned above, the Division provides administrative services for several smaller board and commissions. An overview of these entities, including financial information for the audit period, is included here.

Virginia-Israel Advisory Board

The Virginia-Israel Advisory Board provides advice to the Governor on ways to improve economic and cultural links between the Commonwealth and the State of Israel, with a focus on the areas of commerce and trade, art and education, and general government. No members of the Board receive compensation for their services. The Board does not receive an original appropriation each year, but instead receives a transfer from Economic Development Incentive Payments. The following tables summarize the budget and expenses for the Board in fiscal year 2018. The Board was transferred from the Executive Branch to the Legislative Branch through Chapter 697 of the 2018 Acts of Assembly, and this transfer became effective July 1, 2018. Because of this transfer, no financial information for fiscal year 2019 was included as this was not in our audit scope.

Budget and Expense Analysis for Fiscal Year 2018

Table 5

Original appropriations	\$ -
Adjustments:	
Transfer from Economic Development Incentive Payments to provide the Board's operating appropriation	209,868
Discretionary re-appropriation of prior year unexpended General Fund balances	29,840
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>5,015</u>
Total adjusted appropriations	<u>244,723</u>
Expenses:	
Contractual charges	55,372
Personal services	53,830
Continuous charges	3,521
Supplies and materials	<u>338</u>
Total expenses	<u>113,061</u>
Unexpended balance	<u>\$131,662</u>

Source: Commonwealth's accounting and financial reporting system

Citizens' Advisory Council on Furnishing and Interpreting the Executive Mansion

The Citizens' Advisory Council (Council) on Furnishing and Interpreting the Executive Mansion is an advisory council in the executive branch of state government and operates as a nonprofit charitable organization. The Council does not receive an original appropriation as its funding consists of carryover balances from the previous year. Any donations are solicited by the Virginia Capitol Foundation and collections are deposited with the Treasurer of Virginia. While the Council had a budget of more than \$10,000 for fiscal year 2018, it did not record any expenses during fiscal years 2018 and 2019.

Interstate Organization Contributions

Interstate Organization Contributions represents dues to memberships to the National Governor's Association and other national organizations paid with General Funds. The Organization received and spent about \$191,000 for these purposes in fiscal years 2018 and 2019.

Secretary of Agriculture and Forestry

The Secretary provides policy guidance and direction on the conservation, protection, and development of Virginia's agricultural and forest resources, as well as consumer protection. The Secretary also oversees the Virginia Department of Agriculture and Consumer Services, the Department of Forestry, and the Virginia Agricultural Council.

The Secretary receives General Fund appropriations to fund office operations. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 6

	2018	2019
Original appropriations	\$381,556	\$503,367
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	55,488	6,206
Workforce Transition Act payments to former officials	23,318	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>13,509</u>	<u>979</u>
Total adjusted appropriations	<u>473,871</u>	<u>510,552</u>
Expenses:		
Personal services	345,759	393,996
Contractual services	89,420	82,845
Continuous charges	28,094	27,964
Supplies and materials	<u>4,392</u>	<u>5,539</u>
Total expenses	<u>467,665</u>	<u>510,344</u>
Unexpended balance	<u>\$ 6,206</u>	<u>\$ 208</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Commerce and Trade

The Secretary acts on behalf of the Governor in the management and direction of commerce and trade agencies to perform program coordination, policy planning, and budget formation activities. The Secretary receives General Fund appropriations to fund office operations. The following table summarizes the General Fund operating budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 7

	2018	2019
Original appropriations	\$703,779	\$1,076,185
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	128,553	174,701
Workforce Transition Act payments to former administration officials	79,495	6,082
Transfer from Central Appropriations for employee salary, benefit changes, and other amounts	24,639	-
Legislative budget reduction	-	(140,000)
Total adjusted appropriations	<u>936,466</u>	<u>1,116,968</u>
Expenses:		
Personal services	584,761	773,694
Contractual services	107,357	105,948
Continuous charges	54,353	56,992
Supplies and materials	13,550	5,527
Equipment	<u>1,744</u>	<u>819</u>
Total expenses	<u>761,765</u>	<u>942,980</u>
Unexpended balance	<u>\$174,701</u>	<u>\$ 173,988</u>

Source: Commonwealth's accounting and financial reporting system

In addition to the appropriations to fund office operations, the Secretary of Commerce and Trade received General and non-general fund appropriations for economic development incentive payments to various grants as required by the Appropriation Act, which are shown in the table below.

**Summary of Grants Disbursed by the Secretary of Commerce and Trade
for Fiscal Years 2018 and 2019**

Table 8

Grant Name	2018	2019	Authorization
Commonwealth's Development Opportunity Fund (A)	\$9,390,000	\$24,703,431	§ 2.2-115, Code of Virginia
Virginia Jobs Investment Program Fund	6,928,062	4,805,149	§ 2.2-1611, Code of Virginia
Advanced Shipbuilding Production Facility Grant	-	6,000,000	§ 59.1-284.29, Code of Virginia
Economic Development Incentive Grant Fund	4,700,000	3,900,000	§ 2.2-5102.1, Code of Virginia
Investment Performance Grant Sub-fund	3,719,210	4,149,210	§ 2.2-5101, Code of Virginia
Governor's Motion Picture Opportunity Fund	3,295,152	1,905,832	§ 2.2-2320, Code of Virginia
Virginia Biosciences Health Research Consortium	3,150,000	3,750,000	Appropriation Act
Aerospace Engine Manufacturing Workforce Grant	837,000	-	§ 59.1-284.22, Code of Virginia
Total	\$32,019,424	\$49,213,622	

Source: Commonwealth's accounting and financial reporting system

(A) Discussed in further detail in paragraphs below

Commonwealth's Development Opportunity Fund

The Commonwealth's Development Opportunity Fund (Opportunity Fund) provides funds to attract economic development prospects and secure the expansion of existing industry within the Commonwealth. The Opportunity Fund's source of funding is General Funds appropriated by the General Assembly. This General Fund appropriation is deposited to the Opportunity Fund in the Office of the Secretary of Commerce and Trade (Secretary), which allows the Governor to make grants to support qualifying projects. These grants are contingent on the company meeting certain criteria required under the Code of Virginia, such as the creation of a certain number of jobs.

The Opportunity Fund cash balance is monitored by the Virginia Economic Development Partnership (Partnership) and Department of Planning and Budget. During periods of slow economic growth when the Opportunity Fund cash balance grows higher than what is required to meet commitments, the accumulated balance in the Opportunity Fund may be reduced by legislative action which reverts the Opportunity Fund balance back to the General Fund. Additionally, there can be a time lag of several years from when the Commonwealth makes its first commitment to the time when there is a required payment.

The Partnership, the Secretary, and the Governor are all involved in the process of awarding grants from the Opportunity Fund. The Partnership conducts the initial reviews of the proposals for grants from the Opportunity Fund, and the grants are subject to ultimate approval by the Secretary and the Governor.

Once the Governor has approved an award, the locality will request the funds and the Opportunity Fund will disburse the monies to the locality, who then pays the funds to the company. The business generally has three years within which to meet the conditions of the grant. If it does not meet the terms of the grant, the company must return some or all of the funds to the Opportunity Fund. The following table summarizes activity in the Opportunity Fund for the last three fiscal years.

Summary of Opportunity Fund Activity (Fiscal Years 2017 - 2019)

Table 9

	2017	2018	2019
Beginning cash balance	\$24,946,098	\$15,028,137	\$27,372,574
Net General Fund transfer	17,350,000	16,750,000	17,750,000
Amount repaid by companies	3,087,616	4,746,569	5,009,438
Interest earned	240,081	237,868	611,588
Payments to localities/companies	(30,595,658)	(9,390,000)	(24,703,431)
Ending cash balance	<u>\$15,028,137</u>	<u>\$27,372,574</u>	<u>\$26,040,169</u>

Source: Commonwealth's accounting and financial reporting system

As of June 30, 2017, the Fund had a cash balance of \$15 million; however, the Fund had commitments of approximately \$14.9 million to various companies, leaving less than \$200,000 remaining as uncommitted funds. During fiscal year 2018, payments to companies declined and the Fund's available balance increased due to the decreased activity. In fiscal year 2019, payments to companies again increased and companies were awarded approximately \$24.7 million for economic development purposes. The following chart highlights the five-year trend of the Opportunity Fund's payments to companies, cash balances, and funds available for commitment after taking into account commitments, which have not been paid. The chart does not include preapproved offers since those contracts have not been finalized.

Opportunity Fund Trends (Fiscal Years 2015 - 2019)

Chart 2



Source: Commonwealth's accounting and financial reporting system

Secretary of the Commonwealth

The Secretary of the Commonwealth has various duties and responsibilities including serving as the custodian of the Governor's official records; handling services of process on some defendants in civil actions, extraditions, and civil rights restorations; registering and regulating lobbyists; appointing and regulating notaries public; and researching and coordinating recommendations for gubernatorial appointments to boards and commissions.

The Secretary primarily receives General Fund appropriations to fund office operations but is also responsible for collecting a number of different fees which generally get deposited to the General Fund. The Secretary also receives funding of \$10 from each fee associated with commissioning notaries public through the Commonwealth's Technology Trust Fund for technology improvements to improve tracking of notary process fees, service of process fees, and various other fees. In addition to the fees collected for commissioning notaries public, the Secretary also collects fees for lobbyist registrations, service of process fees, and certificates of authentication. Fee collections for all revenue sources collected by the Secretary totaled approximately \$3.2 million in both fiscal years 2018 and 2019.

The following tables summarize the budget and expenses for the Secretary in fiscal year 2018 and 2019. The table includes the Technology Trust Fund appropriation for both fiscal years, funded by the \$10 technology fee discussed above. The table below does not include the remaining fee collections since they are not available to the Secretary to fund operations.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 10

	2018	2019
Original appropriations	\$2,184,148	\$2,251,576
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	100,457	135,436
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>60,719</u>	<u>18,826</u>
Total adjusted appropriations	<u>2,345,324</u>	<u>2,405,838</u>
Expenses:		
Personal services	1,436,857	1,388,888
Contractual services	573,829	551,856
Continuous charges	146,978	145,526
Supplies and materials	38,572	20,153
Equipment	<u>3,419</u>	<u>1,069</u>
Total expenses	<u>2,199,655</u>	<u>2,107,492</u>
Unexpended balance	<u>\$ 145,669</u>	<u>\$ 298,346</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Education

The Secretary acts on behalf of the Governor in the management and direction of educational agencies and performs program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations for office operations, and the following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 11

	2018	2019
Original appropriations	\$674,794	\$694,565
Adjustments:		
Workforce Transition Act payments to former officials	\$58,419	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	18,693	7,289
Discretionary re-appropriation of prior year unexpended General Fund balances	<u>16,876</u>	<u>12,743</u>
Total adjusted appropriations	<u>768,782</u>	<u>714,597</u>
Expenses:		
Personal services	686,957	600,984
Contractual services	24,895	64,214
Continuous charges	40,321	46,077
Supplies and materials	2,717	2,798
Equipment	<u>1,149</u>	<u>86</u>
Total expenses	<u>756,039</u>	<u>714,159</u>
Unexpended balance	<u>\$ 12,743</u>	<u>\$ 438</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Finance

The Secretary acts on behalf of the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities. During fiscal year 2018, the Secretary of Finance received additional funding of \$602,000 to assist local governments that were experiencing significant levels of fiscal stress, as determined by the Auditor of Public Accounts. Of this amount, the Secretary provided \$420,210 to the City of Petersburg to assist with efforts to remediate its fiscal stress issues.

The Secretary of Finance receives General Fund appropriations to fund office operations. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 12

	2018	2019
Original appropriations	\$ 488,394	\$667,595
Adjustments:		
Funding for intervention and remediation efforts for localities undergoing fiscal distress	602,000	-
Discretionary re-appropriation of prior year unexpended General Fund balances	92,086	170,608
Workforce Transition Act payments to former officials	164,528	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	17,836	(440)
Total adjusted appropriations	<u>1,364,844</u>	<u>837,763</u>
Expenses:		
Personal services	722,766	627,951
Transfer payments	420,210	-
Contractual services	25,890	61,524
Continuous charges	24,937	32,135
Supplies and materials	433	1,244
Total expenses	<u>1,194,236</u>	<u>722,854</u>
Unexpended balance	<u>\$ 170,608</u>	<u>\$114,909</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Health and Human Resources

The Secretary acts on behalf of the Governor in the management and direction of health and human resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary primarily receives General Fund appropriations to fund office operations. The following table summarizes budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 13

	2018	2019
Original appropriations	\$ 728,516	\$ 830,743
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	492,540	615,472
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	25,708	17,842
Workforce Transition Act payments to former officials	<u>21,835</u>	<u>-</u>
Total adjusted appropriations	<u>1,268,599</u>	<u>1,464,057</u>
Expenses:		
Personal services	554,615	595,090
Contractual services	32,617	61,869
Continuous charges	60,618	54,506
Transfer payments	3,525	4,400
Supplies and materials	1,752	2,808
Equipment	<u>-</u>	<u>659</u>
Total expenses	<u>653,127</u>	<u>719,332</u>
Unexpended balance	<u>\$615,472</u>	<u>\$744,725</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Natural Resources

The Secretary acts on behalf of the Governor in the management and direction of natural resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary primarily receives General Fund appropriations to fund office operations. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 14

	2018	2019
Original appropriations	\$687,173	\$711,953
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	72,118	82,219
Grant funds received from the Energy Foundation	36,368	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>22,460</u>	<u>8,048</u>
Total adjusted appropriations	<u>818,119</u>	<u>802,220</u>
Expenses:		
Personal services	604,967	602,206
Contractual services	87,625	29,976
Continuous charges	37,960	40,646
Equipment	2,414	-
Supplies and materials	<u>465</u>	<u>1,337</u>
Total expenses	<u>733,431</u>	<u>674,165</u>
Unexpended balance	<u>\$ 84,688</u>	<u>\$128,055</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Public Safety and Homeland Security

The Secretary provides management and direction of public safety agencies and provides program coordination, policy planning, and budget formulation activities. In addition, the Secretary works with federal, state, and local officials, as well as the private sector, to develop a coordinated statewide security and preparedness strategy and implementation plan. The Secretary serves as the liaison between the Governor and the federal government, local governments, and first responders on emergency prevention, preparedness, response, and recovery issues.

In fiscal year 2018, the General Assembly provided \$500,000 to the Secretary to provide the state's share of the United States Corps of Engineers Regional Reconnaissance Flood Control Study for both the Hampton Roads and Northern Neck regions. The Secretary received a similar amount in fiscal year 2019 and carried forward the fiscal year 2018 amount as well since the federal government did not request any reimbursement for the state's share during the audit period.

The Secretary primarily receives General Fund appropriations to fund office operations but is also partially funded with federal funds from Emergency Management related to payroll reimbursements within the Secretariat. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 15

	2018	2019
Original appropriations	\$1,714,582	\$1,890,631
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	85,365	647,603
Workforce Transition Act payments to former officials	39,948	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>26,141</u>	<u>25,595</u>
Total adjusted appropriations	<u>1,866,036</u>	<u>2,563,829</u>
Expenses:		
Personal services	864,420	879,174
Contractual services	26,091	186,897
Continuous charges	85,233	55,321
Equipment	1,526	942
Supplies and materials	<u>1,327</u>	<u>1,506</u>
Total expenses	<u>978,597</u>	<u>1,123,840</u>
Unexpended balance	<u>\$ 887,439</u>	<u>\$ 1,439,989</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Technology

The Secretary develops, monitors, and directs the Commonwealth's technology strategy and assists in technology-based innovation and economic development. The Secretary oversees the Virginia's Center for Innovative Technology and the Virginia Information Technologies Agency. The Secretary of Technology's office was eliminated in fiscal year 2019, as an additional Deputy Secretary position for the Commonwealth's information technology services was added under the Secretary of Administration. This explains the significant decrease in expenses between 2018 and 2019.

The Secretary receives General Fund appropriations to fund office operations. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 16

	2018	2019
Original appropriations	\$553,264	\$ -
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	88,966	382,658
Workforce Transition Act payments to former officials	54,901	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>14,304</u>	<u>18,851</u>
Total adjusted appropriations	<u>711,435</u>	<u>401,509</u>
Expenses:		
Personal services	264,798	21,448
Continuous charges	41,195	(645)
Contractual services	22,526	-
Supplies and materials	<u>258</u>	<u>-</u>
Total expenses	<u>328,777</u>	<u>20,803</u>
Unexpended balance	<u>\$382,658</u>	<u>\$ 380,706</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Transportation

The Secretary acts on behalf of the Governor in the management and direction of the transportation agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives all operating funds directly from the Transportation Trust Funds. The following table summarizes the budget and expenses for fiscal years 2018 and 2019.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 17

	2018	2019
Original appropriations	\$888,474	\$916,840
Expenses:		
Personal services	740,871	678,313
Continuous charges	32,979	49,223
Contractual services	28,531	32,803
Supplies and materials	1,426	925
Equipment	<u>104</u>	<u>253</u>
Total expenses	<u>803,911</u>	<u>761,517</u>
Unexpended balance	<u>\$ 84,563</u>	<u>\$155,323</u>

Source: Commonwealth's accounting and financial reporting system

Secretary of Veterans and Defense Affairs

The Secretary monitors and enhances efforts to provide assistance and support to veterans living in the Commonwealth and oversees the Department of Veterans Services and the Veterans Services Foundation. The Secretary also promotes industrial and economic development of localities in or adjacent to United States government military and other national or Commonwealth defense activities.

The Secretary primarily receives General Fund appropriations to fund office operations but is also partially funded with federal funds. The original budget for fiscal year 2018 reflects a reduction of \$393,494 in one-time funding that was included for fiscal year 2017 based on recommendations from the Joint Legislative Audit and Review Commission. The following table summarizes the budget and expenses for fiscal years 2018 and 2019, which includes routine office operations as well as other economic development activities performed by the Secretary as discussed below.

Budget and Expense Analysis for Fiscal Years 2018 and 2019

Table 18

	2018	2019
Original appropriations	\$1,683,197	\$1,842,908
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund balances	2,681,061	1,682,754
Funding increase for the Encroachment Grant	1,500,000	925,000
Legislative funding to support the Federal Action Contingency Trust Fund grant	-	1,250,000
Workforce Transition Act payments to former officials	35,530	-
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	<u>15,340</u>	<u>(31,440)</u>
Total adjusted appropriations	<u>5,915,128</u>	<u>5,669,222</u>
Expenses:		
Transfer payments	860,000	2,227,070
Contractual services	1,258,365	1,963,726
Personal services	813,146	701,112
Continuous services	37,868	5,698
Supplies and materials	<u>2,525</u>	<u>1,916</u>
Total expenses	<u>2,971,904</u>	<u>4,899,522</u>
Unexpended balance	<u>\$2,943,224</u>	<u>\$ 769,700</u>

Source: Commonwealth's accounting and financial reporting system

The Secretary continued a contractual arrangement with a consultant to implement the recommendations resulting from the Governor's Commission on Military Installations and Defense Activities during the audit period. The Secretary spent more than \$590,000 for these purposes in fiscal year 2018, and more than \$570,000 in fiscal year 2019.

In addition to routine office operations such as personal services expenses, the Secretary received and spent funds to provide for economic development incentives to limit the adverse economic impacts of closure, relocation, or realignment of federal military or security installations or other federal agencies located in Virginia. In fiscal year 2018, the Secretary administered grants payments of \$735,000 to the City of Chesapeake and \$125,000 to the City of Hampton, and in fiscal year 2019, the Secretary administered grant payments of \$1.875 million to the City of Chesapeake and \$300,000 to the City of Hampton to support the purchase of properties in support of these purposes.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 26, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Office of the Governor and the Governor's Cabinet Secretaries** (Office) for the period July 1, 2017, through June 30, 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system; review the adequacy of the Office's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Office's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenses, including payroll and small purchase card transactions
Appropriations
Cash receipts (Secretary of the Commonwealth)
At-will employee leave

We performed audit tests to determine whether the Office's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Office's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

We used a non-statistical sampling approach. Our samples were designed to support conclusions about our audit objectives. We applied an appropriate sampling methodology to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes to test in each sample and, when appropriate, projected our results to the population.

Conclusions

We found that the Office properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted one matter involving internal control and compliance with applicable laws, regulations, contracts, and grant agreements that requires management's attention and corrective action. This matter is repeated from the prior audit report, and is described in the section entitled "Audit Finding and Recommendation."

Exit Conference and Report Distribution

We discussed this report with management on July 15, 2020. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

LCW/clj



COMMONWEALTH of VIRGINIA

**Office of the Governor
Richmond 23219**

Secretary of Administration
Division of Selected Agency
Support Services

July 15, 2020

Martha S. Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

We have reviewed your report on our audit for the period July 1, 2017 through June 30, 2019, that identified a compliance matter.

We agree with and respect the finding. We will, in the very near future, correct the reporting efforts to insure that budget transparency concerns, and proper reporting standards are met.

We appreciate the efforts of the audit team, and the constructive advice offered to us throughout the process.

Sincere Regards,

A handwritten signature in blue ink, reading "Dennis M. Johnson".

Dennis M. Johnson
Director, Division of Selected Agency Support Services

OFFICE OF THE GOVERNOR AND GOVERNOR'S CABINET SECRETARIES

As of June 30, 2019

Ralph S. Northam, Governor

Clark Mercer, Chief of Staff

Dr. Keyanna Conner, Secretary of Administration

Bettina Ring, Secretary of Agriculture and Forestry

Brian Ball, Secretary of Commerce and Trade

Kelly Thomasson, Secretary of the Commonwealth

Atif Qarni, Secretary of Education

Aubrey L. Layne, Jr., Secretary of Finance

Dr. Daniel Carey, Secretary of Health and Human Resources

Matthew J. Strickler, Secretary of Natural Resources

Brian J. Moran, Secretary of Public Safety and Homeland Security

Shannon Valentine, Secretary of Transportation

Carlos Hopkins, Secretary of Veterans and Defense Affairs

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director